

2 REBUTTAL TESTIMONY

3 OF

OFFICIAL FILE

4 SCOTT CISEL

ILL. C. C. DOCKET NO. 02-0428

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Applicants Exhibit No. 131

Witness _____

6 Q. Please state your name.

Date 10/24/02 Reporter CB

7 A. Scott Cisel.

8 Q. Are you the same Scott Cisel who submitted direct testimony in this
9 proceeding?

10 A. Yes, I am.

11 Q. What is the purpose of your rebuttal testimony?

12 A. The purpose of this testimony is to respond to the direct testimony of David J.

13 Effron, which was submitted on behalf of the Illinois Attorney General.

14 Q. In what respect are you responding to Mr. Effron's testimony?

15 A. In his testimony, Mr. Effron concludes that "the reorganization is likely to have
16 an adverse rate impact on retail customers, in that it would allow CILCO to
17 continue charging rates that produce excess revenue for two additional years." I
18 will discuss how House Amendment No. 2 to Senate Bill 2081 (Public Act
19 92-0537), which exempted CILCO from the extension of the mandatory transition
20 period unless it was acquired by an entity that owned another Illinois electric
21 utility, was adopted. Also, I will discuss how this provision positively benefits
22 ratepayers in the present proceeding. Finally, I will address whether CILCO
23 intended to file a gas rate case prior to Ameren's agreement to buy CILCORP.

24 **Q. Please discuss the Customer Choice Law and Rate Relief Act of 1997.**

25 A. The Customer Choice Law and Rate Relief Act of 1997 ("Customer Choice
26 Law"), 220 ILCS 5/16-101, *et seq.*, implemented a comprehensive restructuring
27 of the electric industry in Illinois. The restructuring package included:
28 (1) mandatory rate cuts for residential customers; (2) the opportunity for all
29 customers to exercise their choice as to who will be their electric supplier; and
30 (3) opportunities for utilities to restructure their organizations so that they may
31 more readily adjust their operations in order to meet the needs of a comprehensive
32 market place. The restructuring also included a mandatory transition period
33 during which electric utility base rates were frozen. During this period, the
34 legislature provided for rate floors and ceilings. Moreover, any utility desiring to
35 transfer ownership of its generation assets was required to eliminate its fuel
36 adjustment clause ("FAC") under Section 9-220 of the Public Utilities Act,
37 220 ILCS 5/1-101, *et seq.*, for the duration of the transition period.

38 **Q. Was CILCO initially in favor of the Customer Choice Law?**

39 A. No. CILCO did not support passage of the Customer Choice Law. CILCO had
40 extremely competitive rates and was opposed to providing mandatory rate cuts for
41 its residential customers.

42 **Q. Did CILCO take any steps to reorganize its operations under the Customer**
43 **Choice Law?**

44 A. Yes. In accordance with the Customer Choice Law, CILCO froze its FAC and
45 received Commission approval to transfer substantially all of its generation assets
46 to an unregulated affiliate. We reorganized in reliance upon the mandatory

47 transition period ending on December 31, 2004. Under the PSA, CIGI is to
48 supply CILCO's requirements under prices that approximated the generation
49 component of the frozen rates. As a result, CILCO believed that it could
50 adequately manage its short position and the resulting costs of power/energy for
51 this period of time.

52 **Q. How did you learn about the proposal to extend the mandatory transition**
53 **period?**

54 A. In my capacity as a Senior Vice President of CILCO, I am responsible for
55 legislative and public affairs. In early April 2002, Representative Novak
56 announced legislation, House Amendment No. 1 to Senate Bill 2081, to extend
57 the mandatory transition period for an additional two years. Extension of the
58 mandatory transition period extends the electric rate freeze.

59 **Q. What was CILCO's reaction to the proposal to extend the mandatory**
60 **transition period?**

61 A. CILCO was extremely concerned that an extension of the mandatory transition
62 period would adversely impact CILCO's financial condition. At the time, we
63 calculated that CILCO would incur approximately a \$10 million annual increase
64 in energy costs. This calculation was based on the forward price of electricity as
65 compared to its bundled rates and the recognition that, because CILCO was short
66 generation and because CILCO will have transferred the vast majority of its
67 electric generation assets to CIGI, CILCO would be purchasing its future native
68 load requirements from the market.

69 Q. **How did CILCO respond to the proposal to extend the mandatory transition**
70 **period?**

71 A. We presented our analysis to Representative Novak and to other key constituents,
72 including CUB, to explain how an extension of the mandatory transition period
73 would have a devastating financial impact to CILCO. We then sought a provision
74 that would exclude CILCO from the extension in the mandatory transition period.
75 The language that we proposed became House Amendment No. 2. In order to
76 achieve this exclusion, we had to convince our area legislators to support the
77 measure. We then met with key legislators who serve on either the House or
78 Senate energy committees. By explaining our situation and emphasizing the
79 potential adverse impact that a non-recoverable \$10 million annual increase in our
80 energy costs would have on our company, we were able to gain the necessary
81 legislative support for House Amendment No. 2.

82 Q. **Why did CILCO propose that the exemption from the extension of the**
83 **mandatory transition period not apply if CILCO was sold to a company that**
84 **owned another Illinois electric utility?**

85 A. As a stand-alone utility, CILCO believed that it could not absorb a \$10 million
86 annual increase in energy costs. However, we believed that as part of a larger
87 utility holding company, energy savings might be achieved that would outweigh
88 the potential increase in energy costs. In addition, we believed that the extension
89 of the mandatory transition period might be attractive to a company that was long
90 in generation. As a result, we proposed that the exemption not apply in the event
91 that we were sold to a company that owns another ~~Illinois~~ electric utility.

92 Q. Given the extension in the mandatory transition period that will result from
93 Ameren's acquisition of CILCO, does the Ameren acquisition benefit
94 ratepayers?

95 A. Yes. The extension in the mandatory transition period that will result from
96 Ameren's acquisition of CILCO benefits ratepayers. Absent the extension of the
97 rate freeze, CILCO would have sought an increase in its electric base rates to
98 offset the additional \$10 million in annual energy costs that CILCO would have
99 incurred as a result of purchasing its electric load on the market. Instead,
100 Ameren's acquisition of CILCO will result in no rate increase for an additional
101 two years and Ameren has proposed extending the cost-based Power Supply
102 Agreement between CILCO and CIGI for two years. In addition, the extension of
103 the rate freeze provides price stability for all customers.

104 Q. With respect to gas rates, did CILCO intend to file a gas rate case before
105 Ameren agreed to purchase CILCORP?

106 A. Yes. Irrespective of the sale of CILCORP to Ameren, CILCO intended to file for
107 a gas rate increase.

108 Q. Does this conclude your testimony?

109 A. Yes.